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SUBJECT: EL SALVADOR'S IMPENDING ENERGY CRISIS

Ref A: 09 SAN SALVADOR 487
Ref B: 09 SAN SALVADOR 817

¶1. (SBU) SUMMARY: Unless new electrical generation capacity is brought on-line in El Salvador, the country will begin to experience blackouts in the next 3 to 4 years. Two large privately funded projects currently in the planning stages are viewed as the key toward meeting the country's future energy needs. However, these projects are far from assured due to uncertainty in the local and regional markets. The successful development of a regional market for electrical energy is key to addressing El Salvador's long-term energy needs. END SUMMARY.

SHORT-TERM OUTLOOK

¶2. (SBU) Fourteen major electricity generating companies currently operate in El Salvador, with an installed capacity of 1300 Mega Watts (MW) and an operating capacity of 1,100 MW. In December 2008, the maximum registered demand was 916 MW. According to Abraham Bichara, the Executive Vice President of AES, demand grew at a steady 6 percent per year from 2000 to 2007, before the effects of the global economic crisis reduced the demand for power. Bichara said AES projects that energy demand will return to pre-2008 growth levels in 2010, and that unless new generators are brought on-line, the country could experience blackouts in 3 to 4 years.

PLANNED STATE-OWNED ENERGY PROJECTS

¶3. (SBU) Approximately 60 percent of energy output in El Salvador is generated by the state-owned hydroelectric company, CEL, and the geothermal company, LaGeo, a joint venture between CEL and the Italian company Enel. Nicolas Salume, President of CEL, told Econoffs he recognizes the country is facing an impending energy crisis, but that politics are getting in the way of expanding new generating capacity. Salume pointed to the wave of opposition from inside and outside the government against the relatively small 66 MW hydroelectric dam project "El Chaparral." (Ref B)

¶4. (SBU) To avoid similar political struggles in the future, Salume said CEL will focus its efforts on expanding the capacity of existing facilities. In order of priority, Salume said CEL plans to add 80 MW to the "5 de Noviembre" hydro plant (\$100 million), 87.5 MW to "Cerron Grande" hydro plant (\$48 million), and 100 MW to the oil-fired plant Talnique over the next 2 to 3 years.

NEW PRIVATE SECTOR PROJECTS

¶5. (SBU) Cutuco Energy's Country Manager, Irene Lopez, told Econoff that Cutuco plans to start construction on its LNG plant in 2011. Lopez said the LNG plant represents an estimated investment of \$950 million. The three-year project includes a Natural Gas Terminal next to the Port of La Union, a regasification plant, a 525 MW combined cycle power plant, a desalinization plant, a natural gas pipeline system and two power transmission lines. Lopez stated the

plant is designed to meet regional demand by connecting to the Central American Interconnection System (SIEPAC) that is expected to be completed in 2010. Cutuco Energy will also build a second transmission line that will connect to the Salvadoran national grid (ETESAL).

¶6. (SBU) Miguel Bolinaga, the Vice President of the Electric Market for AES El Salvador said AES still plans to build a 250 MW "clean coal"-fired plant next to the Port of La Union and the proposed site of Cutuco Energy's LNG plant. Similar to Cutuco Energy, AES envisions their plant to be a regional provider of energy using the SIEPAC transmission line. However, Bolinaga told Econoff the company is now waiting to secure financing because of global downturn. AES is also waiting to see if a 325 MW long-term energy contract from the GOES will be set aside for new generation. If so, Bolinaga believes the company will be able to secure financing and begin construction of the plant.

¶7. (SBU) Cutuco Energy and AES separately noted similar concerns that could imperil their projects. According to Lopez, the most serious concern relates to sediment build-up in the access channel in the Gulf of Fonseca that could block refueling vessels from reaching the plants. The Salvadoran Port Authority (CEPA) has advised them that sediment build-up is occurring at a rate faster than expected and after less than one year the channel depth has gone from 15 meters to 11 meters. Lopez said that refueling vessels require a minimum depth of 14 meters. Additionally, the FMLN Mayor of La Union opposes both projects, citing environmental concerns, and could attempt to block construction. Cutuco Energy and AES also shared the same concerns about whether SIEPAC regulation between the Central American governments can be agreed upon in a timely manner.

¶8. (SBU) COMMENT: Short-term expansion by CEL should provide 330 MW of installed capacity into the grid in time to meet the increased demand projected to follow an economic recovery. The long-term solution to El Salvador's energy needs depends on the success of

regional integration and the promulgation of regulations that will allow large-scale producers to build new plants with a guaranteed market outside El Salvador. Unless these large plants have access to a robust SIEPAC grid, Cutuco Energy, AES, and other potential energy investors will likely be forced to abandon their ambitious plans.

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